WESTATES
PETROLEUM COMPANY

ANNUAL REPORT DECEMBER 31, 1959

WESTATES PETROLEUM COMPANY

609 SOUTH GRAND AVENUE • LOS ANGELES 17, CALIFORNIA

FINANCIAL

AUDITORS
ARTHUR ANDERSEN & CO., Los Angeles, California

TRANSFER AGENTS
CALIFORNIA BANK, Los Angeles, California
MORGAN GUARANTY TRUST COMPANY OF NEW YORK, New York, New York
PRUDENTIAL TRUST CO., LTD., Toronto, Ontario

REGISTRARS
CITIZENS NATIONAL BANK, Los Angeles, California
EMPIRE TRUST COMPANY, New York, New York
PRUDENTIAL TRUST CO., LTD., Toronto, Ontario

SHARES TRADED ON
PACIFIC COAST STOCK EXCHANGE
TORONTO STOCK EXCHANGE

TO THE STOCKHOLDERS:

1959 has been a year in which numerous major changes have occurred with regard to the properties and operations of your Company and its predecessors. In view of these changes, and the fact that the number of Stockholders has increased, this Annual Report has been prepared listing our major producing properties so as to acquaint all of the Company's Stockholders with the various properties and their locations.

THE CHANGES DURING 1959 CONSISTED OF:

(1) Sale of one-half of the working interest in the Hamilton Dome Field, Wyoming, under advantageous terms and arrangements for an extensive development program with a firm crude market at posted prices.

(2) Substantial increase in production from the Hamilton Dome Field through remedial work on existing wells and the drilling of new wells.

(3) Increase of production and reserves through the drilling of wells in the Justise Field in Lea County, New Mexico.

(4) Expansion of operations and simplification of your Company's capital structure through the consolidation of the assets of Bandini Petroleum Company, Canadian Western Oil Company, Inc., Viking-Kinsella Gas Co., Inc. and Westates Petroleum Company.

(5) Refinancing of the indebtedness of your Company through a $4,250,000 bank loan.

The sale in July 1959, of one-half of the working interest in the Hamilton Dome Field to Continental Oil Company has provided a means for the development of this property. At September 1st, the gross production from the Hamilton Dome Field was 1,150 barrels per day. Through sub-surface remedial work and the completion of 12 new wells in this field, the gross production now amounts to 3,158 barrels per day with a net interest to your Company of 1,320 barrels per day. Over a period of about eight months, the production from this field has, therefore, almost tripled. Additional remedial work and the drilling of new wells have been scheduled as a continuation of this program so as to further increase the production from this field.

During the latter part of 1959, a well was drilled on your Company's property in the Justise Field, which, after completion, tested in excess of 2,000 barrels per day. Since then, 3 additional wells have been drilled testing from 440 to 5,000 barrels per day. The Conservation Commission of the State of New Mexico has established allowables averaging 110 barrels a day for each of these wells. As a result of engineering studies, it has been determined that the drilling of these 4 wells will increase total net oil reserves substantially and has proved an area of approximately 240 acres on which it is estimated that 8 additional wells may be drilled, thereby further increasing oil production and reserves. Your Company will own a one-half working interest in these wells after recovering the cost of drilling and operating them.

The consolidation during the latter part of 1959 of Westates Petroleum Company, Bandini Petroleum Company, Canadian Western Oil Company, Inc., and Viking-Kinsella Gas Co., Inc. expanded the operations of your Company considerably and, in view of the proximity to each other of the producing properties of these various companies, substantial operating cost reductions will result. The simplification of the capital structure of your Company has resulted in a relatively small number of shares of preferred stock outstanding and sole voting power is now vested in the common stock. Immediately after the consolidation, most of the indebtedness of your Company was refinanced through a $4,250,000 bank loan, repayable from 50% of the net production from your Company's leases with minimum monthly instalments of $70,000. To date, payment to the bank of 50% of your Company's net production attributable to this loan has been substantially in

excess of the minimum monthly instalments so that, based upon the present and future anticipated production, we expect this loan to be paid off sooner than its maturity date.

At the beginning of 1960, your Company had an interest in a total of 377 wells in California, Wyoming, Texas, New Mexico, Oklahoma, and Alberta, Canada, in which your Company owned a net interest of 288 oil wells and 21 gas wells with an approximate net production of 2,908 barrels of oil per day and 6,526,000 cubic feet of gas per day. Your Company's current net oil production per day, four months later, is approximately 3,405 barrels, an increase of 497 barrels per day. When referring to your Company's net interest in production, we refer to the production from the wells after reducing such amount by the royalty interest on the properties and then by the amount attributable to working interests owned by others. It is anticipated that this production will increase substantially during the current year.

Your Company employed independent consulting engineers to evaluate the aggregate crude oil and gas reserves of the consolidated companies as of August 1, 1959. Crude oil reserves of the various companies totaled 9,947,810 barrels of proved developed reserves; 6,274,360 barrels of proved undeveloped reserves; and 5,225,000 barrels of semi-proved undeveloped reserves, totaling 21,447,170 barrels. These reserves do not reflect the additional development resulting from your Company's recent remedial development programs in the Hamilton Dome Field in Wyoming, the Justise Field in New Mexico, or for water flooding or other secondary recovery methods. Total gas reserves of your Company as of August 1, 1959, were estimated to be 46 billion cubic feet.

Over the past two years, your Company has conducted a remedial program on its properties which has materially reduced costs and increased production. Under the present depressed California crude oil prices, it is questionable whether your Company could have operated some of these properties at a profit if this remedial program had not been undertaken.

In addition to the oil and gas properties, your Company has two wholly-owned contract drilling subsidiaries; Arrow Drilling Company, which owns and operates 15 drilling rigs in the Mid-Continent Area of the United States, and Arrow Drilling Company, Ltd., which owns and operates 7 drilling rigs in Canada. Your Company also owns a one-third interest in Keir & Cawder Arrow Drilling Company, Ltd., which owns and operates 3 rigs in Turkey and Iraq.

Projections for the future of the drilling industry indicate that the number of wells drilled in the United States and Canada will gradually increase as demand for petroleum products increases and the Arrow Drilling Companies believe that, as a result of improving their equipment, they will receive a greater percentage of the available work than they have received in the past. Since Arrow Drilling Companies' customers are primarily major oil companies, there is a degree of stability in their operations which smaller organizations do not have, and any increase in exploration activities will directly increase their profit potential.

During 1959, the Arrow Drilling Company subsidiaries experienced some of the severe competitive influences which made that year one of the worst in the history of the drilling industry. The management, through its policy of improving the efficiency of their equipment, has enabled the subsidiaries to meet competition under unfavorable industry conditions. Preliminary forecasts by the management have indicated that, barring any unforeseen developments in 1960, the Arrow Drilling Companies can anticipate a reasonable profit from their operations.

Referring to the financial statements of your Company, we wish to direct your attention to certain developments which have resulted from the consolidations in December 1959. Your Company, at December 31, 1959, had a working capital position (current assets less current liabilities) of approximately \$531,000 as compared with the working capital deficit at December 31, 1958, of over \$800,000. The long-term debt section has been simplified through the refinancing by means of the bank loan, and the capital stock accounts now consist of only one class of preferred stock and one class of common stock.

The Consolidated Income Statement reflects a net loss of $943,000 after giving effect to various write-offs and write-downs, totaling $1,150,500, of un-developed acreage, miscellaneous investments and other properties. Many of these items were non-recurring in nature and were non cash items in 1959 and, therefore, did not decrease net cash income for this period. Adding back these non cash items plus depreciation and depletion provisions of $1,593,721, less gain on sale of producing properties, results in net cash income before special item of approximately $920,000. The recording of these adjustments was deemed advisable at this time to reflect the book value of your Company's assets on a conservative basis.

It is the intention of your Company to pay the dividend on the preferred stock, which begins to accrue on July 1, 1960, on a current basis to avoid accumulations on such preferred stock. The holders of 95,688 shares of preferred stock exercised their right to convert into common stock in accordance with the terms of the merger agreement. This reduces the preferred stock outstanding to 237,467 shares and the annual preferred dividend requirements to approximately $118,700.

Through the recent consolidation, the refinancing of indebtedness, the simplification of capital structure, the adjustments in 1959 to reflect more conservative values for certain of your Company's assets, the increase of production in the Hamilton Dome Field and Justise Field, and the reduction of operating expenses, your Board of Directors looks forward to a profitable year in 1960. We are pleased to announce that although the books have not yet been closed, your Company estimates a net profit in excess of $150,000 for the first quarter of 1960 after all charges and expenses, including depreciation and depletion.

Respectfully submitted,

H. W. Thompson
President

May 1, 1960.

PRODUCING PROPERTIES

	State, County or Province and Field	No. of Net Acres	No. of Wells Gross	No. of Wells Net	API Gravity of Oil	Price Per Bbl. of Oil	Net Company Average Daily Production Bbls.	Net Company Average Daily Production MCF
CALIFORNIA:	**Los Angeles County:**							
	Long Beach Field	22.5	20	18.77	25.7	2.60	204	
	Santa Fe Springs Field	14.0	21	19.80	30	2.92	256	
	Torrance-Redondo Field	27.0	4	0.79	18	2.11	13	
	Kern County:							
	Kern Front Field	280	12	12.00	12.7	1.50	35	
	Kern River Field	96	14	14.00	11.8	1.45	53	
	Midway-Sunset Field	320	5	5.00	15.4	1.81	19	
	Poso Creek Field	320	35	35.00	14.7	1.62	184	
	Pyramid Hills Field	300	4	4.00	46	3.36	41	
	Fresno County:							
	Coalinga Westside Field	864	111	111.00	14.9	1.73	403	
	Monterey County:							
	Monroe Swell Field	837.5	1	0.50	18.1	1.50	13	
NEW MEXICO:	**Lea County:**							
	Jalmat Field		6	1.375				470
	Justis Field	860	2	.625	39	2.98	37	140
	Langlie-Mattix		13	10.500	34	2.78	20	1,679
OKLAHOMA:	**Garfield County:**							
	North Garber Field	140	9	4.5	38	2.97	17	259
	Kay County:							
	Autwine Field	55	6	1.5	39	3.03	24	97
	Lincoln County:							
	Perkins Field	80	1	1.0	37	2.99	4	
	Noble County:							
	Northeast Perry Field	480	3	3.0	39	3.03	10	
	South Tonkawa Field	160	2	2.0	39	3.05	4	
TEXAS:	**Ector County:**							
	Foster Field	200	20	10.5	34	2.78	178	
	North Cowden Field	220	5	4.5	32	2.71	119	
	Marion County:							
	Rodessa Field	1,668.02	8	6.0	40	3.13	49	458
	Young County:							
	Gretchen Field	500	2	1.0	39	2.99	10	
WYOMING:	**Hot Springs County:**							
	Hamilton Dome Field	2,017	35	16.5	17	1.93	1,098	
	Park County:							
	Frannie Field	300.5	5	2.5	24	2.21	47	
	Sweetwater County:							
	Canyon Creek Field	4,275	7	2.1				1,038
	Weston County:							
	Southwest Mush Creek Field	640	11	11.0	41	2.76	65	
CANADA:	**Alberta Province:**							
	Craig Lake	344	2	0.54				Shut in
	Hamilton Lake	160	1	0.50			5	
	Hanna	480	2	0.75				Shut in
	Viking-Kinsella	8,880	10	7.50				2,385
	TOTAL	24,540.52	377	308.75			2,908	6,526

WESTATES PETR

OFFICES:

WESTATES PETROLEUM COMPANY
Los Angeles, California
Denver, Colorado

ARROW DRILLING COMPANY
Tulsa, Oklahoma

ARROW DRILLING COMPANY, LTD.
Calgary, Alberta, Canada

KEIR & CAWDER ARROW DRILLING COMPANY, LTD.
London, England

OLEUM COMPANY

ASSETS

CURRENT ASSETS:				
Cash				$ 2,214,990
Accounts receivable —				
Drilling operations (including $246,876 assigned to secure notes payable), less reserve for doubtful accounts			$ 564,599	
Oil operations			575,502	1,140,101
Inventories —				
Crude oil, at market			$ 46,881	
Warehouse stocks, at average cost			187,211	234,092
Drilling contracts in progress, less advance billings of $500,280				421,447
Prepaid expenses				106,182
Total current assets				$ 4,116,812

PROPERTY, PLANT, AND EQUIPMENT:

	COST	RESERVES	NET	
Oil and gas properties (Notes 3 and 4)	$13,718,656	$5,510,128	$ 8,208,528	
Drilling equipment	5,346,276	1,782,408	3,563,868	
Other	1,575,476	680,776	894,700	
	$20,640,408	$7,973,312	$12,667,096	12,667,096
OTHER ASSETS				132,842
				$16,916,750

The accompanying notes are an integral part of this balance sheet.

CONSOLIDATED BALANCE SHEET DECEMBER 31, 1959

LIABILITIES

CURRENT LIABILITIES:		
Current installments of long-term debt		$ 1,041,000
Notes payable to banks —		
Partially secured by assignment of accounts receivable		251,430
Secured by pledges of equipment and securities (paid in January, 1960)		715,000
Other notes payable		53,444
Accounts payable		1,192,739
Accrued liabilities		332,330
Total current liabilities		$ 3,585,943
LONG-TERM DEBT (Note 5):		
Note payable to bank, 6 per cent, due in monthly installments to February, 1965 — secured by mortgage and deed of trust on substantially all of the Company's producing oil and gas properties	$ 4,250,000	
Other notes payable, 6 per cent, due in varying installments to January, 1962—secured by chattel mortgage on drilling rigs	649,111	
	$ 4,899,111	
Less—Current installments included above	1,041,000	3,858,111
CAPITAL STOCK AND SURPLUS (Notes 1, 2, and 6):		
Preferred stock, $10 par value—authorized, 1,500,000 shares—Issued and outstanding, cumulative prior preferred, 5% series, 337,553 shares	$ 3,375,530	
Common stock, $1 par value—authorized, 10,000,000 shares—Issued and outstanding, 4,814,015 shares	4,814,015	
Capital surplus	1,876,082	
Earned surplus (deficit)—Note 5	(592,931)	9,472,696
		$16,916,750

The accompanying notes are an integral part of this balance sheet.

WESTATES PETROLEUM COMPANY
AND SUBSIDIARIES

STATEMENT OF CONSOLIDATED INCOME
For the Year Ended December 31, 1959

OPERATING INCOME:		
Drilling operations		$ 5,279,702
Oil and gas sales (Note 4)		2,255,929
		$ 7,535,631
OPERATING CHARGES:		
Cost of drilling operations	$ 4,405,024	
Oil production expenses	889,464	
Abandonments and provisions therefor, undeveloped lease rentals, dry hole costs, etc.	983,560	
Administrative and general expenses	921,737	7,199,785
Net operating income before provisions for depreciation, depletion, and amortization		$ 335,846
PROVISIONS FOR DEPRECIATION, DEPLETION, AND AMORTIZATION:		
Drilling operations	$ 925,778	
Oil operations	667,943	1,593,721
Net operating loss		$(1,257,875)
OTHER INCOME (EXPENSE):		
Interest expense	$ (238,048)	
Provision for losses on investments in foreign subsidiaries	(133,653)	
Provision for losses on other investments	(33,298)	
Other (net)	49,590	(355,409)
Net loss for the year		$(1,613,284)
SPECIAL ITEM:		
Gain on sale of one-half interest in certain oil and gas properties		669,967
Net loss and special item		$ (943,317)

The accompanying notes are an integral part of this statement.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1959

(1) COMBINATION OF COMPANIES

As of December 14, 1959, Canadian Western Oil Company, Inc. and subsidiaries (the former Westates Petroleum Company, hereinafter referred to as "Westates", and its subsidiaries), Bandini Petroleum Company, and Viking-Kinsella Gas Co., Inc. were combined with Westates Petroleum Company, a corporation formed in 1959, in accordance with an agreement of merger and certain agreements for purchase and sale of assets. The combination was accounted for as a "pooling of interests" and, accordingly, the results of operations of the constituent companies for the year ended December 31, 1959, have been included in the accompanying statement of income.

Since the combination of companies was accounted for as a "pooling of interests", the capital surplus and earned surplus balances as of December 31, 1958, shown on the accompanying statements of surplus are comprised of the amounts applicable to Bandini Petroleum

STATEMENTS OF CONSOLIDATED SURPLUS

For the Year Ended December 31, 1959

	Capital Surplus	Earned Surplus (Deficit)
BALANCE, DECEMBER 31, 1958 (Note 1)	$ 3,649,528	$ 438,295
ADD (DEDUCT):		
Net loss for the year and special item—		
Net loss for the year	—	(1,613,284)
Gain on sale of one-half interest in certain oil and gas properties	—	669,967
Excess of assigned value over par value of capital stock issued by Viking-Kinsella Gas Co., Inc. in connection with acquisition of certain oil and gas properties (Note 2)	210,000	—
Excess of fair market value over par value of shares of capital stock issued by Bandini Petroleum Company in connection with the acquisition of assets of Long Shot Oil Company, Ltd. (Note 2)	938,702	—
Transactions incident to the pooling of predecessor companies with the Company (Note 1)—		
Excess of cost over par value of capital stock of Bandini Petroleum Company purchased in 1958 and canceled	—	(87,909)
Excess of par value of the Company's capital stock issued over the par value of shares of the predecessor companies received in exchange therefor	(2,922,148)	—
BALANCE, DECEMBER 31, 1959 (Note 5)	$ 1,876,082	$ (592,931)

The accompanying notes are an integral part of these statements.

Company and Canadian Western Oil Company, Inc. and subsidiaries (the only constituent companies in existence at that date), except that the amounts relating to Westates (then a subsidiary of Canadian Western) have been reduced by the equity therein acquired as a result of the purchase by Canadian Western of an additional 50,000 shares of Westates preferred stock during 1959 (see Note 2); this stock was canceled at the time the companies were combined. In accounting for the combination in 1959, the difference between the par value of the Company's capital stock issued and the par value of the shares of capital stock of the constituent companies exchanged therefor ($2,922,148) was charged to capital surplus and the remaining capital surplus together with the earned surplus or deficit of all the companies was carried forward.

Common stock of the Company was issued to the shareholders of the respective companies in accordance with the merger and purchase and sale agreements as follows:

Company	Basis for Exchange	Shares Issued
Viking-Kinsella Gas Co., Inc.	9 for 7	90,000
Canadian Western Oil Company, Inc.	¾ for 1	2,346,418
Bandini Petroleum Company (exclusive of 22,075 shares held by Westates, which were canceled)	1 for 1	1,516,550
Westates (exclusive of shares held by Canadian Western Oil Company, Inc., which were canceled)—		
Common stock	2 for 1	185,941
Preferred stock	2 for 1	675,106
		4,814,015

In addition to the above, the holders (exclusive of Canadian Western) of Westates' $1 par value cumulative preferred stock received 337,553 shares of the Company's cumulative prior preferred stock, 5% series, on a share-for-share basis. The preferred stock is redeemable at $10 per share and is convertible within a thirty-day period into common stock on the basis of two shares of the Company's common stock for each share of preferred. As of January 13, 1960, the expiration of the conversion period, holders of approximately 95,000 shares of the preferred stock had exercised their conversion rights. Conversion of the preferred shares will be reflected in the Company's financial statements at the expiration of the conversion period.

In connection with the merger of Westates with the Company, holders of 4,398 shares of the Westates preferred stock have notified the Company that they are to be classified as dissenting shares. These shares have been reflected in the accompanying balance sheet as though they had been exchanged for common and preferred stock of the Company on the basis set forth above. No provision has been made for the liability, if any, which will result if the Company is required to purchase such shares.

(2) ACQUISITIONS

Acquisition by Canadian Western Oil Company, Inc. of additional preferred stock of Westates—

During 1959, Canadian Western purchased an additional 50,000 shares of the preferred stock of its subsidiary, Westates, for $775,000 cash. The cost of these shares exceeded their underlying book value at the date of acquisition by $518,425. In consolidating and combining the accounts of the companies, this excess was assigned to a major producing oil property and is subject to the Company's accounting practices, with respect to such properties. As set forth in Note 1, Canadian Western's equity in the capital surplus and earned surplus of Westates at the date of acquisition of the additional investment has been eliminated from the surplus balances as of December 31, 1958, since the combination of the companies has been accounted for as a "pooling of interests".

Acquisition by Bandini Petroleum Company of assets of Long Shot Oil Company, Ltd.—

In August, 1959, Bandini Petroleum Company acquired all of the assets (consisting principally of oil and gas properties), subject to its liabilities, of Long Shot Oil Company, Ltd. in exchange for 818,625 shares of its $1 par value capital stock. The excess of the fair market value of the shares issued over the par value thereof ($938,702) was credited to capital surplus. Results of operations of the assets acquired (which included a wholly owned subsidiary of Long Shot Oil Company, Ltd.) have been included in the accompanying statement of income since acquisition. The subsidiary was merged into the Company in December, 1959, and the investment, which was equivalent to the outstanding capital stock and surplus as of the date of acquisition, was eliminated.

Acquisition by Viking-Kinsella Gas Co., Inc. of oil and gas properties—

Viking-Kinsella Gas Co., Inc. was incorporated in June, 1959, at which time it acquired oil and gas properties in Canada and Oklahoma by issuance of 70,000 shares of its $1 par value common stock. The excess of the purchase price over the par value of the stock issued ($210,000) was credited to capital surplus.

(3) CHANGE IN METHOD OF COMPUTING DEPRECIATION, DEPLETION, AND AMORTIZATION OF PRODUCING OIL AND GAS PROPERTIES

In 1958 and prior years, the constituent companies generally followed the practice of computing depreciation, depletion, and amortization of their investment in producing oil and gas properties at unit-of-production rates, based upon estimated recoverable reserves applicable to individual properties. Provisions for the year ended December 31, 1959, have been computed at a unit-of-production rate based upon aggregate recoverable reserves in relation to the total unrecovered investment in such properties. As a result of this change in method, the depreciation, depletion, and amortization provision for 1959 was approximately $293,000 less than the provision would have been if the change had not been made.

(4) OIL AND GAS PROPERTIES SUBJECT TO RESERVED OIL PAYMENTS

Certain producing oil and gas properties are subject to reserved oil payments, payable out of production from the properties. Proceeds from the sales of oil and gas from these properties of $159,463 for the year ended December 31, 1959, which have been applied in liquidation of the principal amounts of the oil payments and payments of interest thereon, have been excluded from income for the year. The aggregate principal balance of the oil payments, not reflected in the financial statements, was $50,036 as of December 31, 1959.

(5) LOAN AGREEMENT AND RESTRICTIONS

The 6 per cent note payable to the bank is secured by a mortgage and deed of trust covering substantially all of the Company's producing oil and gas properties. This note is being paid out of 50 per cent of the Company's interest in proceeds from the sales of oil, gas, and other hydrocarbons produced from the properties.

The note provides for minimum monthly payments of $70,000 plus interest commencing February 1, 1960, through February 1, 1965. The portion included in current liabilities at December 31, 1959 ($801,000), represents the amounts paid in February and March, 1960, plus the minimum principal installments required to be paid during the remainder of the year.

In connection with this bank loan, the Company has agreed, among other things, (1) to maintain working capital (as defined) of not less than $500,000, (2) not to declare or pay any dividends on its common stock, or make any other distribution with respect to such shares, and (3) not to purchase, acquire, redeem, or retire any shares of its capital stock. As of December 31, 1959, the Company's working capital (as defined) amounted to $1,390,000.

(6) STOCK OPTIONS

As of December 31, 1959, the Company had reserved 250,000 shares of its common stock for issuance to officers and employees in accordance with two stockholder-approved stock option plans; 110,000 shares under the plan of Westates (assumed by the Company in connection with the combination of companies described in Note 1) and 140,000 shares under a plan adopted by the Company in October, 1959.

Options to purchase the 110,000 shares at a price of $3.55 per share had been granted under the plan of Westates; all of these options were outstanding as of December 31, 1959. Options granted under this plan are conditioned upon continued employment and become exercisable in four equal annual installments commencing with the grant date and expiring five years thereafter. Options with respect to 55,000 shares were exercisable as of December 31, 1959.

The options available under the plan adopted by the Company in October, 1959, are also conditional upon continued employment and become exercisable in three equal installments at thirteen-month intervals commencing after the thirteenth month from the date of grant. In January, 1960, options to purchase 127,000 shares at $2.10 per share were granted under this plan.

No options have been exercised under these plans and no amounts have been reflected in the Company's income account with respect to these options.

ARTHUR ANDERSEN & CO.

1320 WEST THIRD STREET
LOS ANGELES 17

To the Stockholders and Board of Directors,
Westates Petroleum Company:

We have examined the consolidated balance sheet of WESTATES PETROLEUM COMPANY (a Delaware corporation) and subsidiaries as of December 31, 1959, and the related statements of income and surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and statements of income and surplus present fairly the financial position of Westates Petroleum Company and subsidiaries as of December 31, 1959, and the results of their operations for the year then ended, and were prepared in conformity with generally accepted accounting principles. Except for the change (which we approve) in the method of computing provisions for depreciation, depletion, and amortization of producing oil and gas properties described in Note 3 to the consolidated financial statements, in our opinion, such accounting principles were applied on a basis consistent with that of the preceding year.

ARTHUR ANDERSEN & CO.

Los Angeles, California,
March 11, 1960.

WESTATES PETROLEUM COMPANY

SUIT AGAINST LOS ANGELES, WESTATES PETROLEUM NULLED

Los Angeles -- A superior court judge dismissed a taxpayer's suit against Westates Petroleum Co. and Los Angeles. The suit contested the legality of an oil-drilling lease the city granted a subsidiary, Los Angeles Harbor Oil Development Co., in 1956.

The company said the action of Judge Leon T. David cleared the way for development of the property, consisting of some 3,400 city-owned acres in the Los Angeles harbor.

Judge David also turned down a request for trial of a new suit alleging fraud by the Los Angeles City Council. Both the 1956 suit and the petition for a new trial were instituted by Phil Silver, a Los Angeles attorney.

Mr. Silver said he will petition the District Court of Appeals to set aside Judge David's decision.

George Eckert, treasurer of Westates Petroleum, said the company expects to begin drilling on the leased property in about two months. H. W. Thompson, president, said the lease, "if successful, could yield substantial income" to the company and Los Angeles.

Mr. Eckert said the lease provides that the company will pay the city 18.67% of the gross proceeds from oil produced on the leasehold area. It also calls for an additional royalty of 36% from the production of wells exceeding a yield of 207 barrels a day, Mr. Eckert said.

Both the Los Angeles County Superior Court and the District Court of Appeals originally ruled the lease granted by the city was illegal, but they were overruled by the California Supreme Court. The U. S. Supreme court last month turned down a request by Mr. Silver to review the case.

---June 5, 1962

JUN 8 1962

WESTATES PETROLEUM COMPANY

811 WEST SEVENTH STREET • LOS ANGELES 17, CALIFORNIA

DIRECTORS

HENRY R. BENJAMIN
New York, New York

WILLIAM L. BOYER
Los Angeles, California

CECIL CHESHER
Calgary, Alberta

F. ARNOLD DAUM
New York, New York

JOHN S. DAVIDSON
Vancouver, British Columbia

GEORGE N. KEYSTONE, SR.
Burlingame, California

FRED D. MURRAY
New York, New York

JOHN P. OHL
New York, New York

DONALD ROYCE, SR.
Los Angeles, California

ROBIN F. SCULLY
Beatrice, Nebraska

R. H. TECKLENBORG
Los Angeles, California

H. W. THOMPSON
Los Angeles, California

OFFICERS

H. W. THOMPSON
President

J. H. THOMPSON
Vice President

WILLIAM L. BOYER
Vice President

FRED D. MURRAY
Vice President

CECIL CHESHER
Vice President

GEORGE J. ECKERT
Treasurer

LLOYD L. MORRIS
Secretary

GEORGE C. MITCHELL
Assistant Treasurer

GEORGE R. KINSEY
Assistant Secretary

FRANK J. GILLIS
General Counsel and Assistant Secretary

AUDITORS	ARTHUR ANDERSEN & CO., Los Angeles, California
TRANSFER AGENTS	UNITED CALIFORNIA BANK, Los Angeles, California MORGAN GUARANTY TRUST COMPANY OF NEW YORK, New York, New York PRUDENTIAL TRUST CO., LTD:, Toronto, Ontario
REGISTRARS	CITIZENS NATIONAL BANK, Los Angeles, California EMPIRE TRUST COMPANY, New York, New York PRUDENTIAL TRUST CO., LTD., Toronto, Ontario
SHARES LISTED ON	PACIFIC COAST STOCK EXCHANGE TORONTO STOCK EXCHANGE

5% Prior Preferred ($10 par)	237,214 shares
Common ($1 par)	* 4,977,083 shares

* 1,147,778 shares owned by Directors, Officers and Beneficial Interests.
—(From Proxy Statement April 12, 1962)